

NATIONAL BANK OF RWANDA

ANNUAL REPORT

AND

FINANCIAL STATEMENTS

31 DECEMBER 2007

ERNST & YOUNG

NATIONAL BANK OF RWANDA
ANNUAL REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2007

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NATIONAL BANK OF RWANDA
BANK INFORMATION
YEAR ENDED 31 DECEMBER 2007

DIRECTORS

The directors who served during the year and to the date of this report were:

| | | |
|----------------------|--------------------------|--|
| François KANIMBA | Governor and Chairman | - Appointed on 06 April 2002 |
| Consolata RUSAGARA | Vice-Governor and member | - Appointed on 15 March 2001 |
| | | - Resigned from the Board on 12 March 2008 |
| Ephrem TURAHIRWA | Vice-Governor and member | - Appointed on 12 March 2008 |
| Proper MUSAFIRI | Member | - Appointed on 16 February 2005 |
| Uzziel NDAGIJIMANA | Member | - Appointed on 23 January 2004 |
| Victor NDENGEYINGOMA | Member | - Appointed on 23 January 2004 |
| Cyrille Victor | Member | - Appointed on 16 February 2005 |

SENIOR MANAGEMENT TEAM

| | |
|----------------------------|--|
| François KANIMBA | Governor |
| Consolata RUSAGARA | Vice- Governor |
| Thomas KIGABO | Chief Economist |
| Appollinaire MURASIRA | Director - Banking Operations |
| Vianney KAGABO | Director - International Operations |
| Philemon SAFARI | Director - Monetary and Financial Markets |
| Gakuba KABATI | Director - Accounting and Budget |
| Theobald NKURANGA | Director - Information Technology |
| Bernardin RUTAGARAMA | Acting Director - General Services |
| Angélique KANTENGWA | Director - Bank Supervision |
| Joy NTARE | Director - Supervision of Non-Bank financial institutions |
| Védaste HIMILI | Director - Internal Audit |
| Musoni RUTAYISIRE | Director - Research |
| Antoinette NYIRAHUKU | Director - Human Resources |
| Célestin SEKAGILIMANA | Director - Foreign Exchange Inspection and Balance of Payments |
| François Xavier RUTAGENGWA | Head of Legal Department |
| Alexis HABIYAMBERE | Director - Governor's Office |
| Dr. Juru RURANGANWA | Head of Medical Department |

REGISTERED OFFICE

Avenue Paul VI
P.O Box 531
Kigali
RWANDA

BRANCHES

Southern Branch
P.O Box 622
Huye
RWANDA

Nothern Branch
P.O Box 127
Musanze
RWANDA

Eastern Branch
P.O Box 14
Rwamagana
RWANDA

Western Branch
P.O Box 462
Rusizi
RWANDA

NATIONAL BANK OF RWANDA
DIRECTORS' REPORT (Continued)
YEAR ENDED 31 DECEMBER 2007

AUDITORS

Ernst & Young
Rugigana House
Avenue de la paix
P.O Box 3638
Kigali
RWANDA

LAWYER

Mr. François Xavier RUTAGENGWA
Avenue Paul VI
P.O Box 531
Kigali
RWANDA

BANK SECRETARY

Alexis HABİYAMBERE
Avenue Paul VI
P.O Box 531
Kigali
RWANDA

NATIONAL BANK OF RWANDA
DIRECTORS' REPORT
YEAR ENDED 31 DECEMBER 2007

The directors submit their report together with the audited financial statements for the year ended 31 December 2007, which disclose the state of affairs of the Bank.

PRINCIPAL ACTIVITIES

The mission of the Bank is to formulate and implement monetary policy with a view to preserving the value of the currency and to ensure its stability. To this end, the Bank exercises control of money supply and credit and ensures the good functioning of the money market, the foreign exchange market and in general that of the banking and financial system.

RESULTS

The results for the year are set out on page 7.

DIVIDEND

The board of directors recommends the payment of a dividend of Frw '000 4,864,415 (2006 Frw 1,987,038,000) to the Government of Rwanda.

DIRECTORS

The directors who served during the year and to the date of this report are listed on page 1.

MANAGEMENT COMMITTEE

The members of the management committee who served during the year and to the date of this report were:

| | | |
|--------------------|-----------------------|------------------------------|
| François KANIMBA | Governor and Chairman | - Appointed on 06 April 2002 |
| Consolata RUSAGARA | Vice-Governor | - Appointed on 04 April 2002 |
| Consolata Rusagara | | - Resigned on 12 March 2008 |
| Ephrem TURAHIRWA | Vice-Governor | - Appointed on 12 March 2008 |

AUDIT COMMITTEE

The Bank's Audit Committee consists of:-

| | | |
|-----------------------|----------|---------------------------------|
| Mr. Manassé TWAHIRWA | Chairman | - Appointed on 03 August 2001 |
| Mr. Gaston MPATSWE | Member | - Retired on 01 May 2007 |
| Mrs. Madeleine NIRERE | Member | - Appointed on 16 February 2005 |

AUDITORS

Ernst & Young were appointed auditors of the Bank in January 2008 and have expressed their willingness to continue in office.

By order of the Board

Board Secretary

.....2008

NATIONAL BANK OF RWANDA
STATEMENT OF DIRECTORS' RESPONSIBILITIES
ON THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2007

Law No. 11/97 of 26 July 1997 regarding statutes of the National Bank of Rwanda requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Bank as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure the Bank keeps proper accounting records which disclose, with reasonable accuracy, the financial position of the Bank. They are also responsible for safeguarding the assets of the Bank.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and the requirements of Law No. 11/97 of 26 July 1997 regarding statutes of the National Bank of Rwanda. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the Bank will not remain a going concern for at least the next twelve months from the date of this statement.

Signed on behalf of the Board of Directors by: -

.....
Governor

.....
Vice Governor

.....2008

REPORT OF THE INDEPENDENT AUDITORS
TO THE MINISTER OF FINANCE
ON THE FINANCIAL STATEMENTS OF NATIONAL BANK OF RWANDA

Report on the Financial Statements

We have audited the accompanying financial statements of National Bank of Rwanda, set out on pages 7 to 37 which comprise the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The financial statements of the Bank as of 31 December 2006 were audited by another auditor whose report dated 17 May 2007, expressed a qualified opinion on account of a departure from International Financial Reporting Standards on treatment of currency note printing and coin minting costs in the financial statements.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Statutes of the National Bank of Rwanda. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an independent opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depended on our professional judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered the internal controls relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Deferred costs

As discussed in note 16 to the financial statements, a net book value of Frw 992,804,000 relating to past currency note printing and coin minting costs have been carried in the balance sheet as a deferred cost contrary to the requirements of International Financial Reporting Standards. Accordingly the assets of the Bank, and the profits and the general reserve fund are overstated by Frw 992,804,000.

Opinion

In our opinion, except for the effect on the financial statements of the matter referred to in the paragraph above the financial statements give a true and fair view of the state of financial affairs of the Bank as at 31 December 2007 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and Law number 11/1997 relating to Statutes of the National Bank of Rwanda, which were applied in 2007 and a subsequently up - dated Law number 55/2007 which was gazetted after year end on 20 February 2008.

Kigali

.....2008

NATIONAL BANK OF RWANDA
INCOME STATEMENT
YEAR ENDED 31 DECEMBER 2007

| | Note | 2007 Frw'000 | 2006 Frw'000 |
|---|------|--------------------|--------------------|
| Interest income | 3 | 14,245,245 | 11,747,211 |
| Interest expenses | 4 | <u>(3,765,617)</u> | <u>(4,097,966)</u> |
| Net interest income | | 10,479,628 | 7,649,245 |
| Net commission and fees income | 5 | 176,741 | 147,307 |
| Net gain on foreign currency trading | 6 | 2,255,630 | 1,533,950 |
| Other non interest income | 7 | <u>3,873,989</u> | <u>4,660,973</u> |
| Net income before non interest expenses and foreign exchange revaluation losses | | 16,785,988 | 13,991,475 |
| Non interest expenses | 8(a) | (8,938,994) | (9,047,236) |
| Foreign exchange revaluation loss | | <u>(693,443)</u> | <u>(2,022,124)</u> |
| Net profit for the year | | <u>7,153,551</u> | <u>2,922,115</u> |

NATIONAL BANK OF RWANDA
BALANCE SHEET
AT 31 DECEMBER 2007

| ASSETS | Note | 2007 Frw '000 | 2006 Frw '000 |
|---|------|---------------------------|---------------------------|
| Cash balances | | 586,156 | 1,392,712 |
| Foreign assets | 9 | 300,906,519 | 240,199,213 |
| International Monetary Fund Quota | 10 | 68,809,170 | 66,059,277 |
| Due from Government of Rwanda | 11 | 41,266,354 | 41,793,967 |
| Loans and advances to Commercial Banks and other financial institutions | 12 | 2,560,523 | 1,491,446 |
| Staff loans | 13 | 3,458,551 | 3,100,470 |
| Investment in Associate | 14 | - | - |
| Investment property | 15 | 197,664 | 229,013 |
| Deferred costs | 16 | 992,804 | 1,852,749 |
| Other assets | 17 | 1,453,033 | 1,484,532 |
| Property and equipment | 18 | 2,045,793 | 1,785,412 |
| Intangible assets | 19 | <u>12,822</u> | <u>68,421</u> |
| TOTAL ASSETS | | <u>422,289,389</u> | <u>359,457,212</u> |
| LIABILITIES | | | |
| Currency in circulation | 20 | 72,758,482 | 58,436,638 |
| Government deposits | 21 | 141,764,406 | 119,720,622 |
| Due to banks and other financial institutions | 22 | 80,900,589 | 63,597,084 |
| Amounts due to the International Monetary Fund | 23 | 85,065,046 | 79,797,657 |
| Foreign liabilities | 24 | 14,338,395 | 13,856,683 |
| Other liabilities | 25 | <u>4,804,635</u> | <u>6,447,907</u> |
| TOTAL LIABILITIES | | <u>399,631,553</u> | <u>341,856,591</u> |
| EQUITY | | | |
| Share capital | 26 | 2,000,000 | 2,000,000 |
| General reserve fund | 27 | 12,819,735 | 10,634,975 |
| Other reserves | 28 | 2,973,686 | 2,978,608 |
| Proposed dividends | 29 | <u>4,864,415</u> | <u>1,987,038</u> |
| TOTAL EQUITY | | <u>22,657,836</u> | <u>17,600,621</u> |
| TOTAL LIABILITIES AND EQUITY | | <u>422,289,389</u> | <u>359,457,212</u> |

The financial statements were approved by the Board of Directors on2008
and signed on its behalf by:

.....) Governor
))
))
))
.....) Vice Governor

NATIONAL BANK OF RWANDA
 STATEMENT OF CHANGES IN EQUITY
 YEAR ENDED 31 DECEMBER 2007

| | Share capital Frw'000 | General reserves fund Frw'000 | Other reserves Frw'000 | Proposed dividends Frw'000 | Total Frw'000 |
|---|--------------------------|-------------------------------------|---------------------------|----------------------------------|-------------------|
| Year ended 31 December 2006: | | | | | |
| Balance at the beginning of the year | 2,000,000 | 8,028,428 | 4,767,950 | 1,109,478 | 15,905,856 |
| Net profit for the year | - | 2,922,115 | - | - | 2,922,115 |
| Dividends: | | | | | |
| -Final proposed for 2006 | - | (1,987,038) | - | 1,987,038 | - |
| -Dividends for 2005 paid | - | - | - | (1,109,478) | (1,109,478) |
| Transfer to reserves | - | (350,654) | 350,654 | - | - |
| Transfer of reserves on foreign exchange fluctuations | - | 2,022,124 | (2,022,124) | - | - |
| Transfer to equity funds | - | - | (40,100) | - | (40,100) |
| Gain on revaluation of foreign assets | - | - | 53,577 | - | 53,577 |
| Write back of currency printing costs | - | - | (131,349) | - | (131,349) |
| Balance at the end of the year | <u>2,000,000</u> | <u>10,634,975</u> | <u>2,978,608</u> | <u>1,987,038</u> | <u>17,600,621</u> |
| Year ended 31 December 2007: | | | | | |
| Balance at the beginning of the year | 2,000,000 | 10,634,975 | 2,978,608 | 1,987,038 | 17,600,621 |
| Net profit for the year | - | 7,153,551 | - | - | 7,153,551 |
| Dividends: | | | | | |
| -Final proposed for 2007 | - | (4,864,415) | - | 4,864,415 | - |
| -Dividends for 2006 paid | - | - | - | (1,987,038) | (1,987,038) |
| Transfer to reserves | - | (858,426) | 858,426 | - | - |
| Gain on revaluation of foreign assets | - | - | 22,050 | - | 22,050 |
| Transfer of reserves on foreign exchange fluctuations | - | 754,050 | (754,050) | - | - |
| Write back of currency printing costs | - | - | (131,348) | - | (131,348) |
| Balance at the end of the year | <u>2,000,000</u> | <u>12,819,735</u> | <u>2,973,686</u> | <u>4,864,415</u> | <u>22,657,836</u> |

NATIONAL BANK OF RWANDA
CASH FLOW STATEMENT
YEAR ENDED 31 DECEMBER 2007

| | Note | 2007 Frw'000 | 2006 Frw'000 |
|---|------|--------------------|--------------------|
| OPERATING ACTIVITIES | | | |
| Net cash from operating activities | 30 | <u>49,017,215</u> | <u>11,513,962</u> |
| INVESTING ACTIVITIES | | | |
| Purchase of property and equipment | | (774,297) | (580,306) |
| Purchase of intangible assets | | - | (1,303) |
| Proceeds from sale of property and equipment | | <u>16,469</u> | <u>3,407</u> |
| Net cash (utilised in)/ generated from investing activities | | <u>(757,828)</u> | <u>(578,202)</u> |
| FINANCING ACTIVITIES | | | |
| Dividends paid | | (1,987,038) | (1,109,478) |
| Currency in circulation | | <u>14,321,844</u> | <u>8,148,068</u> |
| Net cash from financing activities | | <u>12,334,806</u> | <u>7,038,590</u> |
| Net increase in cash and cash equivalents | | 60,594,193 | 17,974,350 |
| Cash and cash equivalents at the beginning of the year | | 241,591,925 | 225,639,699 |
| Foreign exchange revaluation losses | | <u>(693,443)</u> | <u>(2,022,124)</u> |
| Cash and cash equivalents at the end of the year | 31 | <u>301,492,675</u> | <u>241,591,925</u> |

1. CORPORATE INFORMATION

The National Bank of Rwanda (BNR) is governed under the law No. 11/97 of 26 July 1997. The Bank's responsibilities are focused towards achieving the following objectives:-

- Formulate and implement monetary policy with an aim to maintain the value and stability of the currency.
- Regulate the foreign exchange market and implement an appropriate policy to ensure the external stability of the currency.
- Supervise the banking sector with an aim to maintaining stability and confidence in the financial sector.
- Carry out on behalf of the government, the exclusive role of issuing currency.
- Banker to government.

The Bank's share capital of Frw 2 billion is fully subscribed by the Rwandan Government. It may be increased by either incorporating the reserves on the decision of the Board of Directors ratified by the presidential decree or by new allocation of the Government of Rwanda.

In accordance with Article 65 of the law No. 11/97 of 26 July 1997, BNR's net profit is appropriated as follows:

- 20% to the General Reserve Fund.
- After all appropriations earmarked to other reserves deemed necessary by the Board of Directors mainly to special reserves the balance is paid to the Public Treasury.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below:

(a) Basis of preparation

The financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS) except for the specific departure in IFRS in accounting for deferred costs incurred in 2003 and 2004 when the Bank withdrew from circulation all old notes and coins, and in accordance with Law no 11/97 relating to Statutes of the National Bank of Rwanda 2007 which were subsequently up – dated to Law number 55/2007, which was gazetted after year end on 20 February 2008

The financial statements have been prepared under the historical cost basis, except for measurement at fair value and impairment of certain financial assets. The financial statements are presented in Rwanda Francs (Frw), and all values are rounded to the nearest thousand (Frw '000) except where otherwise indicated.

(b) Significant accounting judgements and estimates

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies, reported values of assets, liabilities, disclosures, income and expenses during the reporting period. The estimates and associated assumptions are based on historical experiences, the results of which form the basis of making judgements while acknowledging that actual results may ultimately differ from these estimates.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Significant accounting judgements and estimates (Continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and the future periods if the revision affect both current and future periods. The most significant use of judgements and estimates are as follows:-

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities of the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques which are based on some assumptions.

Impairment of losses on loans and advances

The Bank reviews its loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required.

Impairment of equity investment

The Bank's investment in equity investment is reviewed for significant or prolonged decline in the fair value below cost or where objective evidence of impairment exists.

(c) Revenue and expenses recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:-

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale financial investments, interest income and expense is recorded at the effective interest rate based on actual purchase price.

Fee and commission income

The Bank earns fee and commission income from a range of services it provides to its customers. Fee and commission income for the provision of services is recognized on accrual basis.

Dividend income and expense

Revenue is recognised when the Bank's right to receive the payment is established. Dividend payable is recognised as an appropriation of profit at the end of the year.

(d) Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Changes in expected useful life are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates. Depreciation is calculated

NATIONAL BANK OF RWANDA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED 31 DECEMBER 2007

using the straight-line method to write down the costs of property and equipment to their residual values over their estimated useful lives. Land is not depreciated.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(d) Property and equipment (Continued)

The annual depreciation rates in use for each asset category are:

| | |
|--|-------|
| Building | 5-10% |
| Computer equipment | 33.3% |
| Machines | 20% |
| Motor vehicles | 25% |
| Furniture, fittings and office equipment | 10% |
| Security equipment | 10% |

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in income statement as other income or other expense in the year the asset is derecognized.

(e) Intangible assets and amortisation

Intangible assets acquired separately are measured on initial recognition at costs. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Amortization is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

| | |
|-------------------|-------|
| Computer software | 33.3% |
|-------------------|-------|

(f) Consumable stores inventory

Consumable stores inventory are valued at the lower of cost and net realisable value. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale. Provisions are made for all anticipated inventory losses, impairment and obsolescence.

(g) Currency printing costs

Currency note printing and coin minting costs are expensed in the income statement in the period in which they are incurred.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(h) Investment in associate

The Bank investment in its associate is accounted for using the equity method of accounting. An associate is an entity in which the Bank has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Bank's share of net assets of the associate. Losses in excess of the cost of the investment in associate are recognized when the Bank has incurred obligations on its behalf. The income statement reflects the Bank's share of the results of operations of the associate.

(i) Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

(j) Cash and Bank Equivalents

Cash comprises of foreign currency held in the Bank and demand deposits held with foreign Banks. Cash equivalents comprise of short term highly liquid investments and term deposits that are readily convertible into known amounts of cash and which are subject to an insignificant risk in changes in value. The short-term highly liquid investments include balances with maturities of three months or less from the date of acquisition.

(k) Foreign currency transactions and balances

Transactions in foreign currencies during the year are converted into Rwandan Francs at the rate ruling at the transaction date. Foreign currency holdings, placements and liabilities are adjusted for the daily exchange variations. The resulting differences from conversion and translation are dealt with in the income statement in the year in which they arise. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency at the exchange rate ruling at the balance sheet date.

(l) Financial instruments

Financial instruments are initially recognized when the Bank becomes a party to contractual provisions of the instrument. Financial instruments are initially measured at cost, which includes transaction costs. The five different types of financial instruments held by the Bank are:-

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(l) Financial instruments (Continued)

Financial instruments held to maturity

Financial instruments with fixed or determinable payments and fixed maturity where the Bank has a positive intent and ability to hold to maturity other than loans and receivables which are measured at amortized cost.

Financial assets at fair value through income statements

Financial instruments which are classified as held for trading are held principally for purposes of generating a profit from short-term fluctuations in price or dealers margin, and are measured at fair value. Gains and losses resulting from changes in fair values are recognized in the income statement in the year which they relate.

Available-for-sale financial instruments

These are equity financial instruments which are not loans and receivables originated by the Bank; or those held to maturity; or financial assets held for trading, and are measured at their fair value or cost less provision for impairment losses where fair value is not easily determinable. Gains are transferred directly to an investment revaluation reserve. Losses that offset previous increases are charged to the revaluation reserve and any excess thereafter is charged to the income statement.

Loans and receivables

Loans and receivables are advances made by the Bank, including staff loans and advances. Loans and receivables are initially measured at the fair value and subsequently at amortized cost. Amortized cost represents the amounts at which the financial instruments were measured at initial recognition minus principal repayments plus or minus the cumulative amortization of any difference between the initial amount and the maturity amount and minus any write down for impairment or uncollectability.

The Bank provides loans facilities to staff to help them acquire or improve and equip their houses and purchase motor vehicles.

Derivatives

Currency swap that requires initial exchange of different currencies of equal fair value is accounted for as a derivative.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(l) Financial instruments (Continued)

Derivatives (Continued)

A financial asset or liability at fair value through income statement is a financial asset or financial liability that meets either of the following conditions:-

- i. it is classified as held for trading, if:
 - acquired or incurred principally for purpose of selling or repurchasing in the near term;
 - part of a portfolio of identified financial instrument that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking; or
 - a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument)
- ii. upon initial recognition, it is designated by the Bank as at fair value through income statement

(m) Impairment of non financial-assets

The Bank assesses at each reporting date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired, whether there is an indication that a non-financial asset may be impaired. If any such indications exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. When the carrying amount of an asset (or cash generating unit) exceeds its recoverable amount, the asset (or cash generating unit) is considered impaired and is written down to its recoverable amount.

(n) Investment properties

The Bank holds certain properties as investments to earn rental income or awaiting disposal or any future use. Investment properties are carried at cost less accumulated depreciation. Depreciation is calculated at a rate of 5% or 10% using the straight-line method, depending on the construction materials used or the method of purchase.

(o) Employee benefits

In accordance with the existing law relating to social security, the Bank makes contributions to the Caisse Sociale du Rwanda (CSR) on behalf of its employees. The Bank's and employees' contributions amount to 5% and 3% respectively of the employees' monthly gross salary.

The Bank in addition has an in-house managed pension scheme. The employees' contribution to this amount to a third of total annual salary and the remaining two thirds is contributed by the Bank and charge in the income statement in the year in which it relates.

The Bank also provides medical facilities for the employees and their families. Related costs are charged to the income statement.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(p) Loans and provisions for loans impairment

Loans are stated at outstanding amounts less provision for impairment.

In its capacity as the fiscal agent and banker to the Government, the Bank may make direct advances to the Government for the purpose of offsetting fluctuations between Government receipts and expenditure. In accordance with Article 49 of the law No. 11/97 the total amount of advances to the Government outstanding shall not exceed eleven percent of the gross ordinary revenue of the Government collected during the preceding fiscal year.

In accordance with the Agreement No. 5/96 between BNR and the Government of Rwanda dated 6 February 1996 and Article 79 of law No. 11/97, all the loans granted to the state before 31 December 1994, in addition to the balance in the revaluation account as of 6th March 1995 were consolidated and are charged interest at a rate of 2 percent per year. The recovery of the amount is through a reduction of 30% of the annual dividends payable to the Government commencing 2002.

As the lender of last resort, the Bank may grant loans or advances for fixed periods not exceeding seven days to commercial banks that pledge securities specified by the Bank. Interest rates charged to these banks are determined by the Bank based on the inter-bank money market rates.

The Bank also operates a staff loans scheme for its employees for the provision of facilities such as house and car loans.

The Bank determines the terms and conditions for granting the loans and fixes applicable interest rates that are generally below market rates.

Specific provisions for loan impairment are made in respect of advances. The provisions are made in accordance with BNR instruction No. 03/2000 of 29 March 2000 relating to classification of assets and monitoring of liabilities of banks and other financial institutions. When a loan is deemed uncollectable, it is written off against the related provision for impairment. Subsequent recoveries are credited to the income statement if previously written off.

(q) Employee leave entitlement

The estimated monetary liability for employees' leave entitlement at the balance sheet date is recognised as an expense accrual. This amount is written back in the income statement when employees utilise their leave days in subsequent periods.

(r) Taxation

According to Article 71 of the Law No. 11/97 of 26 July 1997 governing the National Bank of Rwanda, the Bank is exempt from payment of income tax in respect of its functions as defined by the law.

(s) Dividends payable

Dividends are recognised upon payment. Dividends declared after the balance sheet date but before financial statements are authorised for issue are disclosed in the notes to the financial statements.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(t) Government grants and government assistance

The Bank, being a wholly owned government financial institution, may receive grants in both monetary and non monetary basis. Government grants are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Government grants related to assets, including non-monetary grants at fair value, are presented in the balance sheet by setting up the grant as deferred income.

Government assistance

The Bank in addition may receive certain forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity. The Bank's policy on government assistance that cannot be reliably measured is to disclose the nature, extent and duration of the assistance in order that the financial statements may not be misleading.

NATIONAL BANK OF RWANDA
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 YEAR ENDED 31 DECEMBER 2007

| 3. | INTEREST INCOME | 2007 Frw'000 | 2006 Frw'000 |
|-------|---|-------------------|-------------------|
| | Local interest earnings | 1,067,279 | 932,522 |
| | Foreign interest earnings | <u>13,177,966</u> | <u>10,814,689</u> |
| | | <u>14,245,245</u> | <u>11,747,211</u> |
| 4. | INTEREST EXPENSES | | |
| | Interest on monetary policy issues | 2,884,088 | 3,637,645 |
| | Interest on foreign currency deposits | 487,647 | 33,473 |
| | Interest paid to IMF | <u>393,882</u> | <u>426,848</u> |
| | | <u>3,765,617</u> | <u>4,097,966</u> |
| 5. | NET COMMISSION AND FEES INCOME | | |
| | Commission and fees income | 260,190 | 226,570 |
| | Commission and fees paid | <u>(83,449)</u> | <u>(79,263)</u> |
| | | <u>176,741</u> | <u>147,307</u> |
| 6. | NET GAIN ON FOREIGN CURRENCY TRADING | | |
| | Gains on sale of foreign currencies | 2,479,339 | 1,822,823 |
| | Foreign exchange losses | <u>(223,709)</u> | <u>(288,873)</u> |
| | | <u>2,255,630</u> | <u>1,533,950</u> |
| 7.(a) | OTHER NON INTEREST INCOME | | |
| | Write back of currency printing costs | 131,348 | 131,348 |
| | Fines, penalties and other administrative income | 109,060 | 60,813 |
| | Write back of accruals and provisions(see note 7 (b) below) | 452,228 | 297,322 |
| | Gain on sale of property, plant and equipment | 16,469 | 3,346 |
| | Revenue grant from the Government of Rwanda | 2,884,088 | 3,637,611 |
| | Other income (see note 7 (c) below) | <u>280,796</u> | <u>530,533</u> |
| | | <u>3,873,989</u> | <u>4,660,973</u> |
| 7 (b) | WRITE BACK OF ACCRUALS AND PROVISIONS | | |
| | Write back on provisions for doubtful debts from former employees | 2,165 | 24,799 |
| | Write back on provision for staff annual leaves payable | 151,207 | 141,820 |
| | Write back of other provision for doubtful debts | <u>298,856</u> | <u>130,703</u> |
| | | <u>452,228</u> | <u>297,322</u> |

NATIONAL BANK OF RWANDA
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 YEAR ENDED 31 DECEMBER 2007

| 7 (c) OTHER INCOME | 2007 Frw'000 | 2006 Frw'000 |
|-------------------------------|-----------------|-----------------|
| Sales of demonetised coins | 9,889 | 363,966 |
| Other non banking income | 198,792 | 160,014 |
| Income from exceptional items | <u>72,115</u> | <u>6,553</u> |
| | <u>280,796</u> | <u>530,533</u> |

The sale of demonetised coins was as a result of a decision by the government of Rwanda to change the coat of arms of the Republic of Rwanda in 2003 that resulted into a replacement of all old coins with new coins. As a result in April 2006 a significant amount of coins with a face value of Frw 50, Frw 20, Frw 10 and Frw 5 was sold. Only a small amount of demonetised coins were sold in March 2007.

| 8 (a) NON INTEREST EXPENSES | | |
|--|------------------|------------------|
| Staff costs (see note 8(b)) | 5,025,779 | 4,091,891 |
| Depreciation charge | 513,916 | 471,942 |
| Amortisation of intangible assets | 55,599 | 116,968 |
| Depreciation of investment property | 31,349 | 31,349 |
| Amortisation of deferred costs | 859,945 | 859,945 |
| Provisions for liabilities and charges | 380,664 | 169,291 |
| Amortisation of investments | - | 450,000 |
| Other expenses | <u>2,071,742</u> | <u>2,855,850</u> |
| | <u>8,938,994</u> | <u>9,047,236</u> |

| 8 (b) STAFF COSTS | | |
|-------------------------------|------------------|------------------|
| Salaries and other allowances | 4,133,077 | 3,249,301 |
| Pensions | 296,446 | 365,548 |
| Medical expenses | 287,591 | 143,130 |
| Training and development | 267,624 | 306,421 |
| Other staff costs | <u>41,041</u> | <u>27,491</u> |
| | <u>5,025,779</u> | <u>4,091,891</u> |

| 9. FOREIGN ASSETS | | |
|---|--------------------|--------------------|
| Current accounts | 18,588,293 | 24,573,078 |
| Placements with foreign correspondent banks | 233,135,834 | 134,757,968 |
| Foreign investments | 27,749,054 | 51,332,518 |
| Special Drawing Rights | 13,081,510 | 12,525,879 |
| Other foreign investments | 7,797,786 | 16,689,715 |
| Interest receivables | <u>554,042</u> | <u>320,055</u> |
| | <u>300,906,519</u> | <u>240,199,213</u> |

NATIONAL BANK OF RWANDA
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 YEAR ENDED 31 DECEMBER 2007

10. INTERNATIONAL MONETARY FUND QUOTA

The International Monetary Fund Quota refers to the Rwanda Government's total capital subscription to the International Monetary Fund (IMF). It is equal to SDR 80,100,000 and was converted to Rwandan Francs based on the mean rate to the Special Drawing Rights (SDR) as at 31 December 2007.

| | 2007 | 2006 |
|--|-------------------|--------------------|
| | Frw'000 | Frw'000 |
| 11. DUE FROM GOVERNMENT OF RWANDA | | |
| Government consolidated loan: | | |
| Balance at the beginning of year | 41,792,881 | 46,374,647 |
| Recovery in the year | (596,111) | (332,843) |
| Reimbursement of loss on foreign exchange fluctuations | <u>-</u> | <u>(4,248,923)</u> |
| Balance at end of year | 41,196,770 | 41,792,881 |
| Accrued interest on government overdraft | 69,584 | 1,085 |
| Other dues from Government | <u>-</u> | <u>1</u> |
| | <u>41,266,354</u> | <u>41,793,967</u> |

The Bank signed an Agreement with the Government on 7 February 1996 to consolidate the entire Government debt amounting to Frw 34.457 billion at a rate of 2% per annum. The amount increased to Frw 43.469 billion effective 1 August 1997 subsequent to the passing of law No. 11/97 regarding the statutes of the Bank which stipulated under Article 79 that the balance on the revaluation account at 6 March 1995 be consolidated with the amount of the initial debt. The recovery of the amount is through a reduction of 30% of the annual dividends payable to the Government commencing 2002 and interest on the debt is charged at 2% per annum on the outstanding balance. As at 31 December 2007, an amount of Frw 2.272 billion had been repaid.

Article 49 of the law No. 11/97 sets the limit of the Government of Rwanda's overdraft facility at 11% of the ordinary Government revenues collected during the preceding fiscal year. The limit for the year 2007 was Frw '000 20,824,557. This limit was not attained during the year. The Bank levies on the debit balance interest at a daily average rate of the inter-bank market.

NATIONAL BANK OF RWANDA
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 YEAR ENDED 31 DECEMBER 2007

| 12. LOANS AND ADVANCES TO BANKS AND OTHER FINANCIAL INSTITUTIONS | 2007 Frw'000 | 2006 Frw'000 |
|--|------------------|------------------|
| Receivable from the National Post Office | 13,146 | 24,146 |
| Advances to Commercial Banks | 388,640 | 515,911 |
| Advances to agricultural and agro technical sectors | 1,702,455 | 951,389 |
| Current accounts with Commercial Banks | <u>456,282</u> | <u>-</u> |
| Net advances as at 31 December | <u>2,560,523</u> | <u>1,491,446</u> |

| 13. STAFF LOANS | | |
|---------------------------|------------------|------------------|
| Loans to staff | 3,549,488 | 3,179,044 |
| Provisions for impairment | <u>(90,937)</u> | <u>(78,574)</u> |
| | <u>3,458,551</u> | <u>3,100,470</u> |

| 14. INVESTMENT IN ASSOCIATE | | |
|-----------------------------|----------|------------------|
| Cost | | |
| At 1 January 2007 | - | 450,000 |
| Provisions for impairment | <u>-</u> | <u>(450,000)</u> |
| | <u>-</u> | <u>-</u> |

The investment relates to capital subscribed in Societe Interbancaire de Monetique et Telecompensation au Rwanda S.A (SIMTEL) which amounts to a shareholding of 26.296%. The shares in SIMTEL are not listed and are not available for sale.

SIMTEL is registered and domiciled in Rwanda and it offers an inter-bank network for financial communication that supports cards based payment systems, electronics funds transfers, simple bills payment system and capital market operations to banks and other financial institutions in Rwanda.

The directors are of the opinion that the fair value of the investment is almost nil on account of accumulated losses registered by SIMTEL.

| 15. INVESTMENT PROPERTY | 2007 Frw '000 | 2006 Frw '000 |
|-------------------------|------------------|------------------|
| Cost | | |
| At 1 January | 313,490 | 313,490 |
| Additions | <u>-</u> | <u>-</u> |
| At 31 December | <u>313,490</u> | <u>313,490</u> |
| Depreciation | | |
| At 1 January | 84,477 | 53,128 |
| Charge for the year | <u>31,349</u> | <u>31,349</u> |
| At 31 December | <u>115,826</u> | <u>84,477</u> |
| Net Book Value | <u>197,664</u> | <u>229,013</u> |

NATIONAL BANK OF RWANDA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED 31 DECEMBER 2007

Investment property is stated at depreciated cost. The property rental income earned by the Bank from this property is nominal on account of a preferential lease rental charged on its associate company, SIMTEL.

The direct operating expenses including repairs and maintenance are minimal and there are no significant contractual obligations to incur costs on repairs, maintenance or improvement thereto. The property is situated on plot number 1200 (R.C number: 2141 KIG) and the directors are of the opinion that the net book value is a fair presentation of its market value.

NATIONAL BANK OF RWANDA
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 YEAR ENDED 31 DECEMBER 2007

| 16. DEFERRED COSTS | Printing of notes Frw '000 | Minting of coins Frw '000 | Total Frw '000 |
|---------------------|----------------------------------|---------------------------------|-------------------|
| Cost: | | | |
| At 1 January 2007 | <u>3,914,161</u> | <u>385,563</u> | <u>4,299,724</u> |
| At 31 December 2007 | <u>3,914,161</u> | <u>385,563</u> | <u>4,299,724</u> |
| Amortisation: | | | |
| At 1 January 2007 | 2,219,181 | 227,794 | 2,446,975 |
| Charge for the year | <u>782,832</u> | <u>77,113</u> | <u>859,945</u> |
| At 31 December 2007 | <u>3,002,013</u> | <u>304,907</u> | <u>3,306,920</u> |
| Net Book Value: | | | |
| At 31 December 2007 | <u>912,148</u> | <u>80,656</u> | <u>992,804</u> |
| At 31 December 2006 | <u>1,694,980</u> | <u>157,769</u> | <u>1,852,749</u> |

Currency note printing and coin minting costs are expensed in the income statement in the period in which they are incurred. In 2003, however, following a decision of by the government of Rwanda to change the coat of arms of the Republic of Rwanda, the Bank had to withdraw from circulation all old notes and coins.

The related printing costs were deferred and are amortized on a straight line basis over a period of five years.

| 17. OTHER ASSETS | 2007 Frw | 2006 Frw |
|----------------------------------|------------------|------------------|
| Prepayments and deferred charges | 649,542 | 1,160,043 |
| Consumables | 131,612 | 118,433 |
| Other debtors | <u>839,651</u> | <u>272,114</u> |
| | 1,620,805 | 1,550,590 |
| Provisions for bad debts | <u>(167,772)</u> | <u>(66,058)</u> |
| | <u>1,453,033</u> | <u>1,484,532</u> |

NATIONAL BANK OF RWANDA
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 YEAR ENDED 31 DECEMBER 2007

18. PROPERTY AND EQUIPMENT

| | Land | Buildings | Machinery | Motor Vehicles | Capital work in progress | Office furniture | Computer equipment | Security equipment | Total |
|-----------------------|---------------|------------------|------------------|-------------------|--------------------------------|---------------------|-----------------------|-----------------------|------------------|
| | Frw '000 | Frw '000 | Frw '000 | Frw '000 | Frw '000 | Frw '000 | Frw '000 | Frw '000 | Frw '000 |
| Cost | | | | | | | | | |
| At 1 January 2007 | 25,061 | 1,851,409 | 1,089,846 | 43,770 | - | 635,366 | 1,268,905 | 955,065 | 5,869,422 |
| Additions | 29,216 | 65,128 | 247,905 | - | 264,248 | 23,061 | 138,617 | 6,122 | 774,297 |
| Disposal | - | - | (77,077) | - | - | (10,059) | (75,323) | - | (162,459) |
| At 31 December 2007 | <u>54,277</u> | <u>1,916,537</u> | <u>1,260,674</u> | <u>43,770</u> | <u>264,248</u> | <u>648,368</u> | <u>1,332,199</u> | <u>961,187</u> | <u>6,481,260</u> |
| Depreciation | | | | | | | | | |
| At 1 January 2007 | - | 1,747,276 | 800,052 | 12,856 | - | 487,390 | 829,968 | 206,468 | 4,084,010 |
| Charge for the year | - | 13,708 | 108,179 | 10,943 | - | 43,419 | 241,859 | 95,808 | 513,916 |
| Disposal | - | - | (77,077) | - | - | (10,059) | (75,323) | - | (162,459) |
| At 31 December 2007 | - | <u>1,760,984</u> | <u>831,154</u> | <u>23,799</u> | - | <u>520,750</u> | <u>996,504</u> | <u>302,276</u> | <u>4,435,467</u> |
| Net Book Value | | | | | | | | | |
| At 31 December 2007 | <u>54,277</u> | <u>155,553</u> | <u>429,520</u> | <u>19,971</u> | <u>264,248</u> | <u>127,618</u> | <u>335,695</u> | <u>658,911</u> | <u>2,045,793</u> |
| At 31 December 2006 | <u>25,061</u> | <u>104,133</u> | <u>289,794</u> | <u>30,914</u> | - | <u>147,976</u> | <u>438,937</u> | <u>748,597</u> | <u>1,785,412</u> |

No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated property and equipment. Included in buildings are three houses with a cost of Frw 26,858,036 that are fully depreciated and designated as held for sale. The estimated fair value range of each house is between Frw 74 million and Frw 180 million.

NATIONAL BANK OF RWANDA
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 YEAR ENDED 31 DECEMBER 2007

| 19. INTANGIBLE ASSETS | 2007 Frw'000 | 2006 Frw'000 |
|-----------------------|-----------------|-----------------|
| Cost | | |
| At 1 January | 709,664 | 708,361 |
| Additions | <u>-</u> | <u>1,303</u> |
| At 31 December | <u>709,664</u> | <u>709,664</u> |
| Amortisation | | |
| At 1 January | 641,243 | 524,276 |
| Charge for the year | <u>55,599</u> | <u>116,967</u> |
| At 31 December | <u>696,842</u> | <u>641,243</u> |
| Net book value | | |
| At 31 December | <u>12,822</u> | <u>68,421</u> |

The intangible assets represent computer software in use at the Bank. No amortisation has been charged with respect of certain fully amortised software.

| 20. CURRENCY IN CIRCULATION | 2007 Frw'000 | 2006 Frw'000 |
|-----------------------------|---------------------|---------------------|
| Currency printed | 154,623,755 | 115,317,755 |
| Money in reserve | (63,305,114) | (34,258,500) |
| Cash held at the Bank | <u>(18,560,159)</u> | <u>(22,622,617)</u> |
| | <u>72,758,482</u> | <u>58,436,638</u> |

Money in reserve represents currency printed but not yet issued into circulation. Cash held at the Bank represents notes and coins held by the Bank's principal cashier at the end of the financial year. These two elements have been netted off against the liability for notes and coins in circulation because they do not represent currency in circulation. The cash balance in the balance sheet relates to foreign currency cash balances held by the Bank at year-end.

| 21. GOVERNMENT DEPOSITS | 2007 Frw'000 | 2006 Frw'000 |
|----------------------------------|--------------------|--------------------|
| Government account with the Bank | 2,895,530 | 14,024,908 |
| Special deposits | 5,073,089 | 7,260,709 |
| Letters of credit | 1,050,084 | 3,099,377 |
| Project and ministries' accounts | 46,700,525 | 51,144,307 |
| Local government | 19,072,788 | 2,116,136 |
| Public service enterprises | 1,194,453 | 736,465 |
| Public institutions | 3,304,715 | 562,259 |
| Foreign currency accounts | <u>62,473,222</u> | <u>40,776,461</u> |
| | <u>141,764,406</u> | <u>119,720,622</u> |

NATIONAL BANK OF RWANDA
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 YEAR ENDED 31 DECEMBER 2007

| 22. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS | 2007 Frw '000 | 2006 Frw '000 |
|---|-------------------|-------------------|
| Local currency deposits | 13,521,444 | 7,943,839 |
| Foreign currency deposits | 8,605,026 | 4,791,604 |
| Money market interventions | 58,611,493 | 50,538,233 |
| Interest payable | <u>162,626</u> | <u>323,408</u> |
| | <u>80,900,589</u> | <u>63,597,084</u> |

The Bank in fulfilling its principal objectives, engages in issuing and buying Treasury bills for monetary policy purposes. The amount owed to third parties in relation to mop up operations (issue of Treasury bills) is disclosed as money market interventions.

| 23. AMOUNTS DUE TO THE INTERNATIONAL MONETARY FUND (IMF) | 2007 Frw '000 | 2006 Frw '000 |
|--|-------------------|-------------------|
| International Monetary Fund deposits | 68,820,483 | 66,070,137 |
| IMF Poverty Reduction Growth Facility loans | 4,409,456 | 2,352,898 |
| Special Drawing Rights allocation | 11,766,282 | 11,296,054 |
| Interest payable | <u>68,825</u> | <u>78,568</u> |
| | <u>85,065,046</u> | <u>79,797,657</u> |

IMF balances are maintained in special drawing rights (SDRs) which are revalued daily with other foreign currency accounts. At the close of the period, they are shown in Rwandan Francs based on the average SDR rate applicable at the balance sheet date.

| 24. FOREIGN LIABILITIES | 2007 Frw '000 | 2006 Frw '000 |
|--|-------------------|-------------------|
| National Bank of Belgium current account | 13,459,280 | 11,775,325 |
| Public deposits in local currency | 160,294 | 174,213 |
| Public deposits in foreign currencies | <u>718,821</u> | <u>1,907,145</u> |
| | <u>14,338,395</u> | <u>13,856,683</u> |

| 25. OTHER LIABILITIES | | |
|--|------------------|------------------|
| Staff costs payable | 219,083 | 218,655 |
| Non statutory accounts in Rwandan Francs | 985,209 | 1,043,436 |
| Non statutory accounts in foreign currencies | 344,166 | 379,263 |
| Other accruals | - | 23,162 |
| Other payables | 3,000,326 | 4,237,792 |
| Provisions for contingencies | 62,755 | 393,427 |
| Staff leaves payable | 188,327 | 152,172 |
| Deferred income | <u>4,769</u> | <u>-</u> |
| | <u>4,804,635</u> | <u>6,447,907</u> |

NATIONAL BANK OF RWANDA
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 YEAR ENDED 31 DECEMBER 2007

| | | |
|-----------------------------------|------------------|------------------|
| 26. SHARE CAPITAL | 2007 | 2006 |
| | Frw '000 | Frw '000 |
| Authorised, issued and fully paid | <u>2,000,000</u> | <u>2,000,000</u> |

The Bank's share capital is fixed by Article 6 of Law No. 11/97 of 26 July 1997 relating to the Charter of the National Bank of Rwanda at two billion Rwandan Francs. It is entirely subscribed by the Rwandan Government and the shares do not have a par value.

27. GENERAL RESERVE FUND

In accordance with Article 65 of Law No. 11/97 of 26 July 1997, BNR's annual net profit is appropriated to 20% to the General Reserve Fund.

| | | | | | | |
|-----------------------------|-------------------------|--------------------|---------------------------------|---------------------------------------|------------------|------------------|
| 28. OTHER RESERVES | Currency printing costs | Staff welfare fund | Profit/(loss) charged in equity | Foreign currency revaluation reserves | Government grant | Total |
| | Frw '000 | Frw '000 | Frw '000 | Frw '000 | Frw '000 | Frw '000 |
| At 1 January 2007 | 131,349 | 2,097,374 | (4,165) | 754,050 | - | 2,978,608 |
| Write back on reserves | (131,348) | - | - | (754,050) | - | (885,398) |
| Reserve allocation | - | 858,426 | - | - | - | 858,426 |
| Government grant | - | - | - | - | 4,768 | 4,768 |
| Transfer to deferred income | - | - | - | - | (4,768) | (4,768) |
| Other movements | - | - | <u>22,050</u> | - | - | <u>22,050</u> |
| At 31 December 2007 | <u>-</u> | <u>2,955,800</u> | <u>17,885</u> | <u>-</u> | <u>-</u> | <u>2,973,686</u> |

| | | |
|----------------------------------|--------------------|--------------------|
| 29. DIVIDEND | 2007 | 2006 |
| | Frw '000 | Frw '000 |
| Balance at beginning of the year | 1,987,038 | 1,109,478 |
| Dividends proposed for the year | 4,864,415 | 1,987,038 |
| Dividends paid in the year | <u>(1,987,038)</u> | <u>(1,109,478)</u> |
| | <u>4,864,415</u> | <u>1,987,038</u> |

NATIONAL BANK OF RWANDA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED 31 DECEMBER 2007

| 30. CASHFLOWS FROM OPERATING ACTIVITIES | 2007 | 2006 |
|---|--------------------|-------------------|
| | Frw '000 | Frw '000 |
| Net profit for the year | 7,153,551 | 2,922,115 |
| Adjustments for: | | |
| Depreciation | 513,916 | 471,943 |
| Amortisation of software | 55,599 | 116,967 |
| Depreciation of investment property | 31,349 | 31,349 |
| Amortisation of deferred costs | 859,945 | 859,944 |
| Write back of deferred costs | (131,348) | (131,348) |
| Gain on sale of property and equipment | (16,469) | (3,346) |
| Foreign exchange revaluation losses | 693,443 | 2,022,124 |
| Write back of currency reserves | 22,050 | 13,477 |
| Impairment of investment | - | 450,000 |
| Other movements in reserves | - | 39,708 |
| Operating profit before working capital changes | <u>9,182,036</u> | <u>6,792,933</u> |
| International Monetary Fund (IMF) Quota | (2,749,893) | (2,670,156) |
| Amounts Due from Government of Rwanda | 527,613 | 4,580,680 |
| Loans and advances to banks and other institutions | (1,069,077) | 373,535 |
| Staff loans | (358,081) | (350,805) |
| Other assets | 31,499 | (954,886) |
| Government deposits | 22,043,784 | 14,465,609 |
| Amounts due to banks and other financial institutions | 17,303,505 | 11,704,085 |
| Foreign liabilities | 481,712 | 13,192,266 |
| Due to IMF | 5,267,389 | (37,144,908) |
| Other liabilities | <u>(1,643,272)</u> | <u>1,525,609</u> |
| Net cash from operating activities | <u>49,017,215</u> | <u>11,513,962</u> |

31. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statement comprise the following balance sheet accounts:

| | 2007 | 2006 |
|----------------|--------------------|--------------------|
| | Frw '000 | Frw '000 |
| Cash balances | 586,156 | 1,392,712 |
| Foreign assets | <u>300,906,519</u> | <u>240,199,213</u> |
| | <u>301,492,675</u> | <u>241,591,925</u> |

32. RELATED PARTY TRANSACTIONS

In the course of its operations, the Bank enters into transactions with related parties. Related parties include the Government of Rwanda, as the sole shareholder of the Bank. Unless otherwise stated, all transactions between these entities take place at arm's length and with reference to market rates.

NATIONAL BANK OF RWANDA
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 YEAR ENDED 31 DECEMBER 2007

32. RELATED PARTY TRANSACTIONS (Continued)

a) Transaction with the Government of Rwanda

Transactions entered into with the Government include:

- (a) Banking services;
- (b) Management of issue and redemption of securities at no commission; and
- (c) Foreign currency denominated debt settlement and other remittances at a fee.

BNR does not charge a fee for maintaining the Government accounts. Further, Government accounts do not generate interest income. However, BNR earns commissions on all foreign currency transactions carried out on behalf of the Government.

As at the close of business on 31 December, the following balances, which are included in various balance sheet categories, were outstanding:

| | 2007 Frw '000 | 2006 Frw '000 |
|--|--------------------|--------------------|
| Due from Government of Rwanda (Note 11) | 41,266,354 | 41,793,967 |
| International Monetary Fund deposits (Note 23) | 68,820,483 | 66,070,137 |
| IMF Structural loans (Note 23) | 4,409,456 | 2,352,898 |
| Government of Rwanda deposits (Note 17) | <u>141,825,778</u> | <u>119,720,622</u> |

b) Staff loans

The Bank extends loan facilities to members of staff including the senior management. Staff loans assets (Note 13) include advances to employees, which as at 31 December 2007 amounted to Frw 3,422 million (2006: Frw 3,100 million). The advances are at preferential rates of interest determined by the Bank.

| | 2007 Frw '000 | 2006 Frw '000 |
|-------------------------|------------------|------------------|
| c) Loans to directors | | |
| At 1 January | 119,355 | 153,691 |
| Loan repayments | <u>(23,216)</u> | <u>(34,336)</u> |
| At 31 December | <u>96,139</u> | <u>119,355</u> |
| d) Directors emoluments | | |
| Fees | <u>12,857</u> | <u>11,020</u> |

NATIONAL BANK OF RWANDA
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 YEAR ENDED 31 DECEMBER 2007

33. GOVERNMENT GRANTS AND GOVERNMENT ASSISTANCE

| 33 (a). GOVERNMENT GRANT | Computer equipment Frw '000 | Furniture and fittings Frw '000 | Total Frw '000 |
|----------------------------|-----------------------------------|---------------------------------------|-------------------|
| At 01 January 2007 | - | - | - |
| Received during the year | 2,259 | 3,625 | 5,884 |
| Recognised during the year | <u>(753)</u> | <u>(362)</u> | <u>(1,115)</u> |
| Balance at end of year | <u>1,506</u> | <u>3,263</u> | <u>4,769</u> |

Government grant relates to assets that belonged to the National Insurance Commission which were given to the Bank when activities of the Commission were transferred to the Central Bank.

33 (b) REVENUE GRANT FROM THE GOVERNMENT OF RWANDA

The Government refunds interest on money market intervention paid by the Bank as part of its principal mission of stabilising the value of the Rwandan currency. These refunds amounted to Frw 2,884 million as at 31 December 2007 (2006: Frw 3,637 million).

33 (c) OTHER FORMS OF GOVERNMENT ASSISTANCE

The Bank receives other different forms of assistance from the Government. The assistance is in form of land where the head office is built and others that cannot reasonably have a value placed upon them while other transactions with government cannot be distinguished from the normal trading transactions of the entity, such as procurement through the National Tender Board, protection of its assets by National Police, refunds for money market intervention and monetary policy measures among others.

34. RISK MANAGEMENT POLICIES

Like other similar banks, BNR is exposed to various risks relating to its activities: credit risks, operational risks, liquidity, currency and interest rate risks. BNR's primary risk management objective is to ensure the safeguard of the Bank's assets.

The Bank has put in place the following measures to mitigate on different risks that it faces:

Operational Risk

- Preparation and adherence to procedure manuals for all activities of the Bank;
- Timely posting of transactions and preparation of performance indicators, bank reconciliations (daily closure of books of accounts, weekly/monthly);
- Presence of Accounting Technical Committee and other committees;
- Strong internal audit department and internal control policies.

34. RISK MANAGEMENT POLICIES (Continued)

Currency risk

- Diversification of correspondent banks concerning current accounts and term placements in foreign currency. In this regard, a half of foreign assets are held in central banks of OECD countries, with another half maintained in European reputable private banks with a good standing. The Bank also limits its placements to any single private bank at 10% of its total reserves etc
- The Bank requires a deposit of 100% of the total amount of letters of credit opened and/or confirmed,
- The Bank also requires guarantees (material or personal) in case of issue of loans and off balance sheet items.

Interest rate risk

- Non payment of interest on deposits (Government deposits and deposits from banks)
- The Bank does not have to borrow in local currency for its operating needs
- The Bank has a level of internal borrowings
- The Bank invests in short term instruments

Interest rates risk on currencies lies from the fact that, on one hand interest rates on short-term placements (generally for 1 to 3 months) can diminish and create a loss and on the other hand, interest on liabilities can increase.

Liquidity risk

- There is no need of liquidity in local currency
- Long position in case of foreign currency
- The Bank invests in short tem financial instruments.

The Bank is exposed to liquidity risks when assets with a given maturity cannot cover liabilities.

Foreign exchange risk

- Actual position: long foreign exchange position especially for the USD for which the exchange rate is relatively stable in comparison to other foreign currencies and hence limiting exchange positions for other currencies.
- The Bank put in place a foreign reserve management committee

Generally, the bank manages risks through prudent management of its assets and liabilities.

Concerning exchange reserves, the bank's assets are maintained in USD given that most transactions with correspondent banks are carried out in this currency. BNR manages country exchange reserves and places deposits in AAA sovereign assets and supranational organisations.

Structurally, the Bank's exchange positions by currency are long except for transferable positions in SDR and in Frw that are short. Thus, when exchange rates vary upward, the Bank makes a gain. On the other hand, if there is variation of exchange rates downward, the bank makes a loss.

34. RISK MANAGEMENT POLICIES (Continued)

Concerning risks on assets and liabilities in Frw, the existing legal provisions covers BNR against all risks relating to interest rates. Article 50 of the Bank's charter provides that "credit balances in the accounts opened at the Central Bank do not generate interest". However, Article 49 of the Bank's charter provides that the Bank shall levy on debit balances interest computed at the daily average of inter-bank.

Due to excess liquidity that the commercial banks were experiencing, the Bank has continued its market intervention policy of short term interest earning deposits (mop up deposits) to encourage the commercial banks to invest/deposit the excess funds at the Bank. This is aimed at bringing monetary stability in the economy.

Regarding risks on fixed assets, the Bank protects itself by obtaining insurance policies from insurance companies.

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 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 YEAR ENDED 31 DECEMBER 2007

35. LIQUIDITY RISK

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2007 to their contractual maturity dates.

| ASSETS | On demand Frw'000 | Due within 3 months Frw'000 | Due between 4-12 months Frw'000 | Due between 1-5yrs Frw'000 | Due after 5 years Frw'000 | Total Frw'000 |
|--|-----------------------------|-----------------------------------|---------------------------------------|----------------------------------|---------------------------------|---------------------------|
| Cash balances | 586,156 | - | - | - | - | 586,156 |
| Foreign assets | 31,669,803 | 241,426,798 | 60,865 | 27,749,053 | - | 300,906,519 |
| International Monetary Fund Quota | - | - | - | - | 68,809,170 | 68,809,170 |
| Due from Government of Rwanda | - | 1,508,480 | - | 2,520,588 | 37,237,286 | 41,266,354 |
| Loans to commercial banks and other financial institutions | 456,282 | 341,110 | 224,299 | 1,117,828 | 421,004 | 2,560,523 |
| Staff loans | - | 135,250 | 327,807 | 1,174,623 | 1,820,871 | 3,458,551 |
| Other assets | - | 649,542 | 131,612 | 671,879 | - | 1,453,033 |
| Investment property | - | - | 31,349 | 125,396 | 40,919 | 197,664 |
| Property and equipment | - | - | 482,103 | 952,513 | 611,177 | 2,045,793 |
| Intangible assets | - | - | 12,098 | 724 | - | 12,822 |
| Deferred costs | - | - | 573,903 | 418,901 | - | 992,804 |
| Total assets | <u>32,712,241</u> | <u>244,061,180</u> | <u>1,844,036</u> | <u>34,731,505</u> | <u>108,940,427</u> | <u>422,289,389</u> |
| LIABILITIES | | | | | | |
| Currency in circulation | 72,758,482 | - | - | - | - | 72,758,482 |
| Government deposits | 139,853,007 | 1,911,399 | - | - | - | 141,764,406 |
| Due to banks and other financial institutions | 22,126,470 | 58,437,876 | 336,243 | - | - | 80,900,589 |
| Amounts due to the International Monetary Fund | - | 68,825 | - | - | 84,996,221 | 85,065,046 |
| Foreign liabilities | 879,115 | - | - | - | 13,459,280 | 14,338,395 |
| Other liabilities | 3,596,847 | 951,937 | 255,851 | - | - | 4,804,635 |
| Equity | - | - | - | - | 22,657,836 | 22,657,836 |
| Total liabilities and equity | <u>239,213,921</u> | <u>61,370,037</u> | <u>592,094</u> | <u>-</u> | <u>121,113,337</u> | <u>422,289,389</u> |
| LIQUIDITY GAP 2007 | <u>(206,501,680)</u> | <u>182,691,143</u> | <u>1,251,942</u> | <u>34,731,505</u> | <u>(12,172,910)</u> | <u>-</u> |
| AS AT 31 DECEMBER 2006 | | | | | | |
| Total assets | 25,965,790 | 183,135,630 | 37,040,613 | 5,995,722 | 107,319,457 | 359,457,212 |
| Total liabilities and equity | <u>192,929,294</u> | <u>49,339,410</u> | <u>8,116,660</u> | <u>900,420</u> | <u>108,171,428</u> | <u>359,457,212</u> |
| LIQUIDITY GAP 2006 | <u>(166,963,504)</u> | <u>133,796,220</u> | <u>28,923,953</u> | <u>5,095,302</u> | <u>(851,971)</u> | <u>-</u> |

NATIONAL BANK OF RWANDA
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 YEAR ENDED 31 DECEMBER 2007
 36. CURRENCY RISK

The various currencies to which the Bank was exposed as at 31 December 2007 are summarised in the table below (all expressed in Frw '000):-

| | USD Frw'000 | GBP Frw'000 | EURO Frw'000 | SDR Frw'000 | OTHERS Frw'000 | Total Frw'000 |
|------------------------------------|--------------------|-------------------|------------------|--------------------|-------------------|--------------------|
| ASSETS | | | | | | |
| Foreign assets | 262,136,696 | 22,288,828 | 3,143,562 | 13,158,091 | 179,342 | 300,906,519 |
| International Monetary Fund Quota | - | - | - | 68,809,170 | - | 68,809,170 |
| Cash balances | <u>302,578</u> | <u>263,491</u> | <u>9,972</u> | <u>-</u> | <u>10,115</u> | <u>586,156</u> |
| Total | <u>262,439,274</u> | <u>22,552,319</u> | <u>3,153,534</u> | <u>81,967,261</u> | <u>189,457</u> | <u>370,301,845</u> |
| LIABILITIES | | | | | | |
| Due to International Monetary Fund | - | - | - | 85,065,046 | - | 85,065,046 |
| Liabilities to residents | 61,546,534 | 7,995,341 | 1,866,245 | - | 16,032 | 71,424,152 |
| Other foreign liabilities | <u>183,243</u> | <u>13,994,759</u> | <u>-</u> | <u>99</u> | <u>160,294</u> | <u>14,338,395</u> |
| Total | <u>61,729,777</u> | <u>21,990,100</u> | <u>1,866,245</u> | <u>85,065,145</u> | <u>176,326</u> | <u>170,827,593</u> |
| NET BALANCE SHEET POSITION | | | | | | |
| 2007 | <u>200,709,497</u> | <u>562,219</u> | <u>1,287,289</u> | <u>(3,097,884)</u> | <u>13,131</u> | <u>199,474,252</u> |
| AS AT 31 DECEMBER 2006 | | | | | | |
| Total assets | 204,502,886 | 21,741,745 | 2,572,273 | 78,665,789 | 168,509 | 307,651,202 |
| Total liabilities | <u>39,154,123</u> | <u>17,832,284</u> | <u>2,831,028</u> | <u>79,797,752</u> | <u>222,516</u> | <u>139,837,703</u> |
| NET BALANCE SHEET POSITION | | | | | | |
| 2006 | <u>165,348,763</u> | <u>3,909,461</u> | <u>(258,755)</u> | <u>(1,131,963)</u> | <u>(54,007)</u> | <u>167,813,499</u> |

NATIONAL BANK OF RWANDA
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 YEAR ENDED 31 DECEMBER 2007

37. INTEREST RATE RISK

The following table shows the extent to which the Bank's interest rate exposures on assets and liabilities are matched. Items are allocated to time bands by reference to the earlier of the next contractual interest rate reprising date and maturity date.

| | 3 months or less | 4 to 12 months | Over 1 year | Non-interest bearing | Total |
|--|---------------------------|--------------------------|--------------------------|-----------------------------|---------------------------|
| ASSETS | Frw'000 | Frw'000 | Frw'000 | Frw'000 | Frw'000 |
| Cash balances | - | - | - | 586,156 | 586,156 |
| Foreign assets | 265,359,680 | 35,485,975 | - | 60,864 | 300,906,519 |
| International Monetary Fund Quota | - | - | - | 68,809,170 | 68,809,170 |
| Due from Government of Rwanda | 69,585 | 1,486,206 | 39,710,563 | - | 41,266,354 |
| Loans to commercial banks and other financial institutions | 57,056 | 495,207 | 1,538,902 | 469,358 | 2,560,523 |
| Staff loans | 75,354 | 238,604 | 2,995,494 | 149,099 | 3,458,551 |
| Other assets | - | - | - | 1,453,033 | 1,453,033 |
| Investment property | - | - | - | 197,664 | 197,664 |
| Property and equipment | - | - | - | 2,045,793 | 2,045,793 |
| Intangible assets | - | - | - | 12,822 | 12,822 |
| Deferred costs | - | - | - | 992,804 | 992,804 |
| Total assets | <u>265,561,675</u> | <u>37,705,992</u> | <u>44,244,959</u> | <u>74,776,763</u> | <u>422,289,389</u> |
| LIABILITIES | | | | | |
| Currency in circulation | - | - | - | 72,758,482 | 72,758,482 |
| Government deposits | - | - | - | 141,764,406 | 141,764,406 |
| Due to banks and other financial institutions | 47,116,337 | 11,657,782 | - | 22,126,470 | 80,900,589 |
| Amounts due to International Monetary Fund | - | - | 16,244,563 | 68,820,483 | 85,065,046 |
| Foreign liabilities | - | - | 13,459,280 | 879,115 | 14,338,395 |
| Other liabilities | - | - | - | 4,804,635 | 4,804,635 |
| Equity | - | - | - | 22,657,836 | 22,657,836 |
| Total liabilities | <u>47,116,337</u> | <u>11,657,782</u> | <u>29,703,843</u> | <u>333,811,427</u> | <u>422,289,389</u> |
| INTEREST SENSITIVITY GAP 2007 | <u>218,445,338</u> | <u>26,048,210</u> | <u>14,541,116</u> | <u>(259,034,664)</u> | <u>-</u> |
| AS AT 31 DECEMBER 2006 | | | | | |
| Total assets | 188,770,284 | 52,257,633 | 45,250,717 | 73,178,578 | 359,457,212 |
| Total liabilities and equity | <u>43,037,073</u> | <u>7,592,054</u> | <u>25,411,951</u> | <u>283,416,134</u> | <u>359,457,212</u> |
| INTEREST SENSITIVITY GAP 2006 | <u>145,733,211</u> | <u>44,665,579</u> | <u>19,838,766</u> | <u>(210,237,556)</u> | <u>-</u> |

NATIONAL BANK OF RWANDA
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 YEAR ENDED 31 DECEMBER 2007

38. CONTINGENT LIABILITIES AND COMMITMENTS

Contingencies:

The Bank is a party to legal proceedings with former employees. Having regard to the legal advice received, and in all circumstances, the management is of the opinion that these legal proceedings will not give rise to liabilities, which in aggregate, would otherwise have material effect on these financial statements.

| Commitments: | 2007 Frw '000 | 2006 Frw '000 |
|-----------------------------------|------------------|------------------|
| Contracted for | <u>1,056,480</u> | <u>973,798</u> |
| Authorised but not contracted for | <u>3,280,577</u> | <u>2,480,845</u> |

39. OFF BALANCE SHEET ITEMS

| | | |
|---------------------------|--------------------|--------------------|
| Balance as at 31 December | <u>279,317,135</u> | <u>214,772,280</u> |
|---------------------------|--------------------|--------------------|

The off balance sheet items mainly relate to loans given to the Government and other Government institutions by foreign Governments and International institutions. The others relate to government borrowings from commercial banks for financing the budget.

40. COMPARATIVES

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

41. INCORPORATION

The bank was incorporated in Rwanda in 1964 and is regulated by the Law No. 11/97 of 26 July 1997.

42. CURRENCY

These financial statements are presented in Rwandan Francs (Frw) and are rounded to the nearest thousand (Frw'000).